The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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For Housing . . .

Although the average interest rate on a conventional mortgage dropped last month for the first time since March, there is little to cheer about—yet. Mortgage rates dipped only one quarter of a percentage point from 18.30 per cent to 18.05 per cent. According to studies by this Bank, rates would have to fall below 15 per cent to bring potential homebuyers back into the market and to nearly 13 per cent before purchases would be seriously considered. Since a further easing in mortgage rates to these levels is expected to take place only at a snail's pace, the housing industry is anticipating another dismal year in 1982.

At today's prices of new and existing homes, and even more importantly, with the high cost of financing them, a substantial portion of the population cannot afford a new home. When taking into account the rule-of-thumb that monthly mortgage payments should not exceed one-fourth of a household's monthly gross income, about 85 per cent of first-time potential buyers would not be able to meet this standard when buying a median-priced existing home. When taxes and insurance are added to mortgage debt service, the proportion of those who cannot meet this requirement is even higher.

For example, after a downpayment of approximately 25 per cent on a median-priced existing home ($67,700), principal and interest payments on a 25-year conventional mortgage contracted at 18 per cent would total about $770 per month and absorb almost 45 per cent of gross median family income. Three years ago, in October, 1978, when the average mortgage interest rate was slightly below ten per cent and housing starts were running at a two million unit annual rate, principal and interest payments would have totaled about $341 per month, absorbing only 23 per cent of a typical family's income.

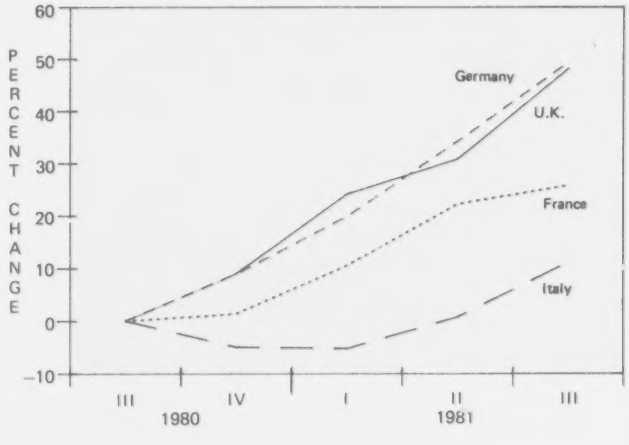
. . . Relief Is Far Away

Although the construction industry has now suffered for more than two years, its problems have intensified in the past seven months. During this period more than 150,000 construction workers lost their jobs and many builders filed for bankruptcy as new-home construction collapsed by more than 35 per cent to a seasonally adjusted 857,000 units at an annual rate in October—the lowest level in 15 years. Single-family home construction was hit the hardest. In this category, home starts declined by almost 25 per cent in October, month-over-month, to a post-war low of 487,000 units at an annual rate.

Adding further to the gloomy condition of the housing industry is the current oversupply of already-built, unsold new single-family homes around the country. At the current sales rate they represent 12.3 months of supply, which with only one exception, is the highest inventory on record. Not surprisingly, with builders experiencing significant difficulties selling homes already on the market, new building permits for future construction declined by 14 per cent in October, compared with September. What is more, a significant rebound in new home construction is not expected for quite some time, even after this stock is reduced. Learning from the 1981 experience, it seems that builders and developers will have to be convinced that there is a sustained recovery in home purchases before they start building again.

One area surviving the housing slump—albeit barely—is the home remodeling sector. While housing starts dropped by 37 per cent during the six months

TOTAL UNEMPLOYED IN SELECTED OECD COUNTRIES
PERCENT CHANGE FROM 3RD QUARTER, 1980



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ending in June, spending on additions and alterations of residential structures has remained relatively stable. Apparently, high interest rates have had less of an adverse impact on this market, since the amount of financing needed for home improvement is much less than that required when purchasing a home. Furthermore, many homeowners, unable to sell their present dwellings, have turned to renovating them instead, while others, who could not trade up to new and larger homes, have added rooms.

Unemployment And Inflation Overseas . . .

The wide publicity given to the sharp rise in U.S. unemployment in October is a potent reminder that it is a widespread phenomenon in many developed countries, particularly in Europe. In the OECD member countries of Europe, the average rate of unemployment for 1981 will be about 8½ per cent and could well rise to an average of 9¼ per cent in 1982. The experiences of four European countries are illustrative of the policy responses to high unemployment.

In the United Kingdom, there were almost three million unemployed in October of this year, 12.4 per cent of the labor force (see chart on first page). This is the highest number of unemployed in about 50 years—since the Great Depression. In France, some 1.8 million workers were out of work in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/18/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.795	+ 2.623	+ 5.750
Loans to Depository Inst.	.561	– .404	– 1.418
Float	3.428	+ .534	– 1.686
Total Reserve Bank Credit	149.314	+ 3.111	+ 6.666
Treasury Deposits with Federal Reserve Banks	3.215	+ .163	– .253
Currency Outside Banks	126.127	+ 1.535	+ 5.251
Member Bank Reserves:			
Required	40.966	+ 1.329	+ .949
Excess (Deficiency)	.202	– .225	– .302
Total Reserves Held	41.168	+ 1.104	+ .647
Net Borrowed Reserves	.257	– .151	– 1.122
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.959	+ 2.800	+ 6.210

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	435.6	+ 2.1‡	+ 3.6‡
M2 (October '81)	1,800.4	+ 9.2	+ 8.9
M3 (October '81)	2,144.2	+ 9.6	+ 11.2
L (July '81)	2,519.4	+ 10.0	+ 11.3

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 11/27/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.90%	10.15%	10.15%
* Federal Agencies	10.80	11.05	11.50
* Project Notes–Taxfree (46% Taxable Equivalent)	12.04	12.13	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	11.30	11.60	12.25

‡Finance Company Paper–Prime

5- 14 days	11.25%
15- 29 days	11.25
30- 59 days	11.00
60- 89 days	10.88
90-179 days	10.75
180-239 days	10.50
240-270 days	10.50

‡* Bankers' Acceptances

Dec.	10.95%
Jan.	10.85
Feb.	10.85
Mar.	10.85
Apr.	10.95
May	10.95

‡Industrial Paper–Prime

30- 89 days	11.00%
90-120 days	11.00

†Federal Funds Effective Rate 12.30%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,957	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,513	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	0.6	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Oct '81n	4.8%	14.4%	12.0%
Change in Producer Prices*	Oct '81	7.2%	2.4%	10.8%
Civilian Employment (Thousands of Persons)†	Oct '81	98,217	98,270	97,206
Unemployment as % of Civilian Labor Force†	Oct '81	8.0%	7.5%	7.6%
Personal Income*	Oct '81	$ 2,477	$ 2,462	$ 2,234
Leading Indicators Composite Index (1967=100)†	Sept '81	130.1	133.7	134.4
Industrial Production Index (1967=100) †	Oct '81	149.5	151.8	146.6
Net Change in Consumer Installment Credit†	Sept '81	$ 2.82	$ 2.86	$ 1.06
U.S. Merchandise Trade Balance †	Sept '81	–$ 1.57	–$ 4.48	–$ 1.11
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Oct '81	857	920	1,519
New Construction Expenditures*	Sept '81	$ 231.6	$ 232.6	$ 224.6
Total Business Inventories†	Sept '81	$ 507.2	$ 502.5	$ 471.5
Total Business Sales †	Sept '81	$ 354.2	$ 352.8	$ 327.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

September, about 8.5 per cent of the work force, and in West Germany 1.4 million workers (6.1 per cent of the work force) were idle in the same month. In Italy, some two million workers (8.8 per cent of the work force) were without jobs in the third quarter. In these latter three countries, the number of unemployed is the highest in more than a decade. Further, unemployment has reached a point in each of these economies where it is challenging inflation as the principal problem facing government policymakers.

In the United Kingdom, the government tenaciously pursues anti-inflationary policies in spite of growing opposition within and outside of Mrs. Thatcher's own party. In France, President Mitterrand has begun to follow policies which place boosting employment above reducing inflation as the major goal of his economic program. In West Germany, the government still maintains a cautious monetary policy which balances a loosening of monetary restraints to stimulate growth and employment on the one hand, against a possible resurgence of inflationary pressures on the other. The Bank of Italy has been maintaining a tight grip on monetary policy and, at the same time, has tried to improve its control over the means by which monetary policy is applied.

In the face of high interest rates and sluggish

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/11/81)	128,040	– 65	+25,292
New York City (11/11/81)	30,972	– 605	+ 5,544
Commercial Paper (11/11/81)	166,230	+ 2,268	+40,992

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/11/81)	188,868	– 856	+18,882
New York City (11/11/81)	54,885	– 270	+ 5,053

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/11/81)	460,104	– 327	+40,542
New York City (11/11/81)	109,851	+ 282	+12,808

Financial Markets

	Friday 11/27/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.46%	+ .11	– 4.68
180-Day Bills†	11.18	– .11	– 4.24
Longest Bills†	11.20	– .35	– 3.70
Recent Issues:			
12¹/₈s 11/30/83 (When Issued)	12.05	– .07	
15⁷/₈s 9/30/85	12.81	+ .06	
14¹/₄s 11/15/91	12.82	– .03	
14s 11/15/11	12.66	– .24	
Municipals:			
Bond Buyer–20 Bond Index* (11/25/81)	11.98%	+ .27	+ 2.36
Blue List Total ($ Million)	$1,158	+$ 171	+ $ 282
30-Day Visible Supply ($ Million)	$2,471	+$ 254	+ $ 457
Total	$3,629	+$ 425	+ $ 739
Corporates:			
Moody's Aa Composite (11/24/81)	13.96%	– .74	+ .56
30-Day Visible Supply ($ Million)	$8,683	+$1,185	+ $4,265
Stocks:			
Dow-Jones Averages:			
Industrials	885.94	+ 33.01	– 107.40
Transportation	389.61	+ 11.29	– 36.07
Utilities	112.84	+ 1.42	– 4.10
65 Stocks	354.71	+ 10.82	– 34.16
Standard and Poor's 500 Stocks	125.71	+ 4.00	– 14.43
N.Y.S.E. Composite Index	72.71	+ 1.72	– 8.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,500	– 106	– 5,772

* 46% Taxable equivalent 22.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/27/81	Week Ago
Overnight	11.75%	12.38%
1 month	11.69	12.44
3 month	11.94	12.75
6 month	12.75	13.06
1 year	13.13	13.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.00%	14.00%
Long Term (7 to 15 yrs.)	14.70	14.70

FOREIGN EXCHANGE SPOT RATES New York Opening (11/27/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02674	37.40
Canada	.8489	1.1780
Denmark	.1395	7.1708
France	.1783	5.6095
Germany	.4495	2.2249
Italy	.0008382	1193.00
Japan	.004625	216.20
Mexico	.03871	25.83
Netherlands	.4107	2.4350
Switzerland	.5607	1.7835
U.K.	1.9430	.5147

growth, the prospects for a rapid reduction in unemployment in Europe are not bright. Even exports, which have seen some improvement recently, particularly for the Germans, are not sufficient to sustain employment in the face of the widespread economic softness in Europe.

. . . Complicate Policymaking

In addition to the damage wrought by unemployment, there are other effects as well. High unemployment reduces governments' revenues—not only in the wages and income taxes lost, but in consumption and other taxes foregone as well. This reduces the income side of the governments' finance equation. Rising unemployment also requires additional social welfare payments, increasing the spending side of the governments' budgets, raising government deficits and adding to the imbalance between income and expenditures.

In the face of declining revenues, these governments have been forced to increase their borrowing in the credit markets to meet their needs. This, in turn, could lead in the short run to higher interest rates as more government borrowing competes with private credit demand, further depressing economic activity. In the longer run, increased government borrowing could result in a rise in taxes to repay the deficits (also depressing economic activity) or, if the debt is monetized, increased inflationary pressures. In the cases of the United Kingdom, Italy, France and West Germany, already high government budget deficits and government borrowing have risen still further and are expected to continue to rise in the near future. H

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